AGRICULTURE

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

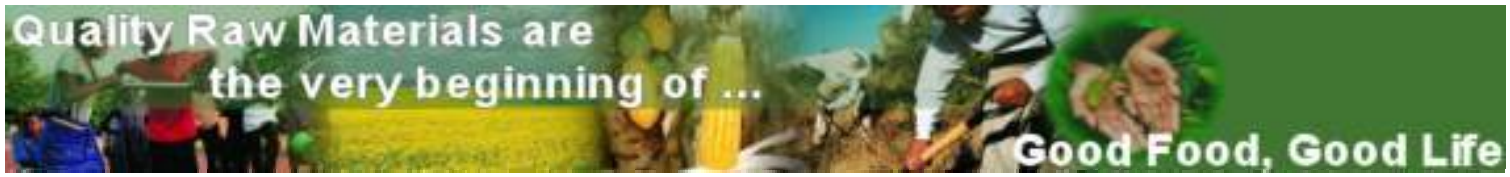
Nestle Malaysia Agriculture Services

12th International Conference of the Society for Global Business and Economic Development
22nd July 2011

Nestlé CONTINUOUS EXCELLENCE

AGENDA

1. Creating Shared Value
2. Challenges and Concerns
3. Nestle Solutions : SAI-N and DP
4. Globally..Nestle Cocoa Plan
5. Contract Farming Malaysia
6. SAI-Nestle Malaysia



Creating Shared Value

- At Nestle, we believe that to have long term business success, you must simultaneously create value for our shareholders and for the public. We call this Creating Shared Value (CSV)
- CSV is a fundamental principle behind the way we conduct business at Nestle

Creating Shared Value

- Our approach

1. Compliance with laws, rules and codes of conducts
2. Sustainability. Nestle follows the interpretation proposed in 1987 by the Brundtland Commission ie. sustainable development that meet the needs of the present, without compromising the ability of future generations to meet their own needs.
3. Win-Win-Win for People Planet Profit

Nestlé's approach to Creating Shared Value

Creating Shared Value and Nutrition

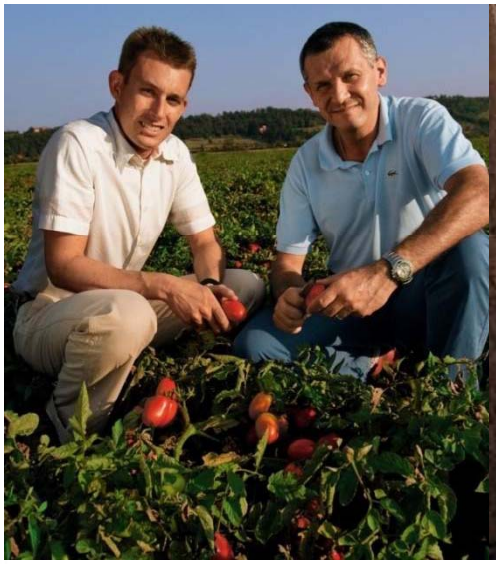
In Sri Lanka, Nespray, fortified affordable milk for school children, provides employment in local factories and uses locally sourced milk. Nutrition education programmes are also run locally

Nestlé Brazil's "Nutrir"programme teaches 1.2 million low-income children about good nutritio

- 7552 products innovated or renovated for nutrition or health reasons in 2009
- 3374 products reduced sugar, fat, salt; 3878 added more nutritious ingredients
- Products improved or confirmed via 60/40+ programme: CHF16.8 billion
- Popularly Positioned Products: sales CHF 8.8 billion, 3950 skus
- Healthy Kids programmes to be implemented in all countries where Nestlé operates directly

Value for Nestlé; greater consumer loyalty; long-term enhanced growth, market share and profitability.
Value for society: Greater access to safe, high-quality, nutritious food greater knowledge about nutrition

Creating Shared Value and Water



Helping tomato farmers use 50% less water, Parma, Italy

Irrigating dairy farms in Moga, India, while mapping supply chain water use with IWMI

Clean water and sanitation for 50,000, especially women, in Côte d'Ivoire

- Water withdrawal down 33% 2000-2009, -143 m^3, or -3.2% per tonne of product yoy
- Despite 63% production increase
- 10 Sustainable Agriculture Initiative Nestlé Water programmes
- Semi-Aerobic Rice Contract Farming - Malaysia
- Leadership on water: UNGC CEO Water Mandate, WEF, IRRI-SRIREF Platform.
- Led joint project with McKinsey and others: "Charting our water future"
- Rehabilitated pumps and provided toilets for 50 000 people in Côte d'Ivoire with IFRC

***Value for Society**: reduced impact on water availability / vocal advocacy*
***Value for Nestlé**: risk and cost reduction*

Creating Shared Value and Rural Development: overview

Nestlé's supplier development Programme in India has reduced reliance on imports, identifying 70 new suppliers

- CHF 20.4 billion of raw materials purchased
- 3.4 million people in developing countries earn livelihoods from Nestlé's supply chain
- 540 000 farmers supply Nestlé directly and receive technical assistance
- 165 497 suppliers received and acknowledged Nestlé Supplier Code
- In Malaysia, involvement with fresh chilli, white and red rice, spices, cocoa and oil palm across length and breadth of country.

***Value for Society**: knowledge sharing, improved agricultural & water management practices*
***Value for Nestlé**: quality supplies from motivated, enabled farmers*

The Nestle Supplier Code

- **The Nestle Supplier Code** establishes certain non-negotiable minimum standards that we ask our suppliers to respect and adhere to when conducting business with Nestle
  - ✓ **Business Integrity** – Compliance with applicable laws and regulations
  - ✓ **Sustainability** – We support and encourage operating practices, farming practices, and agricultural production systems that are sustainable
  - ✓ **Labour Standard** - Prison/forced labour, child labour, working hours, non-discrimination in employment
  - ✓ **Safety and Health** – Safe & healthy work condition. Product & services supplied must meet quality & safety standards as required by applicable law
  - ✓ **Environment** – Suppliers must operate with care for the environment and ensure compliance with applicable laws and regulations.

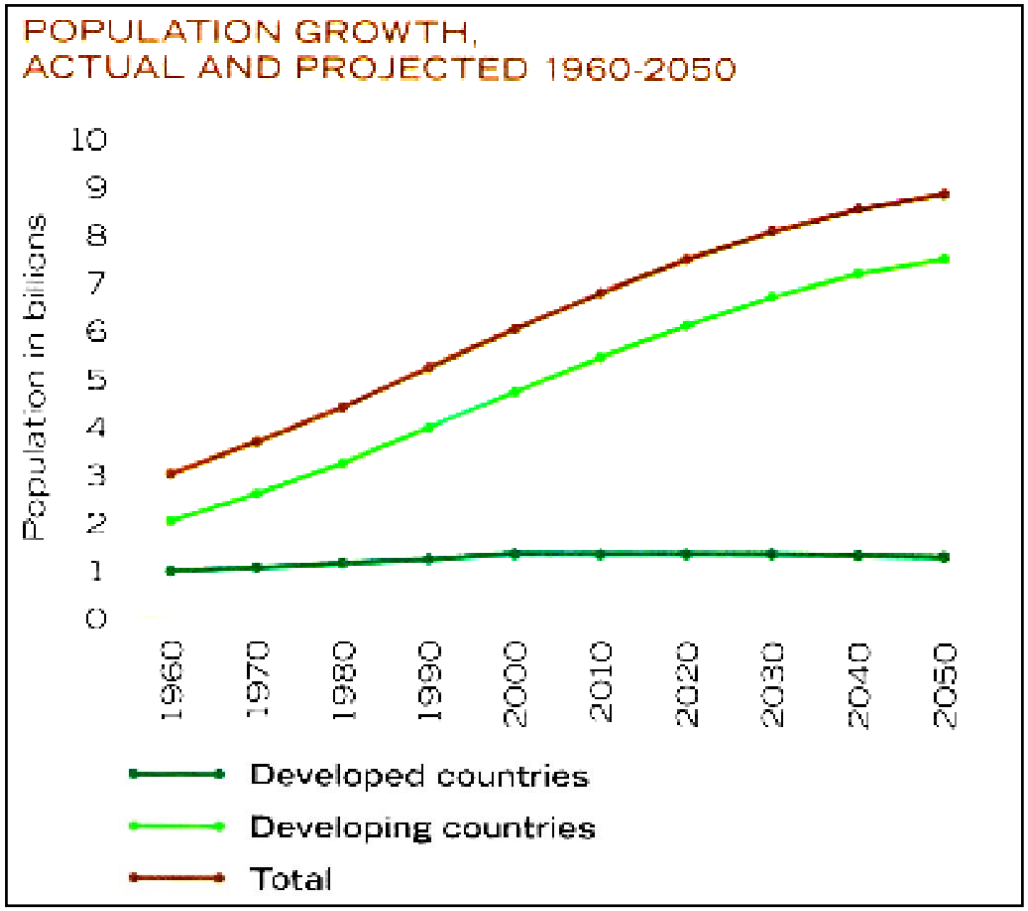
Limited Resources, **Growing Demand**

LAND

WATER

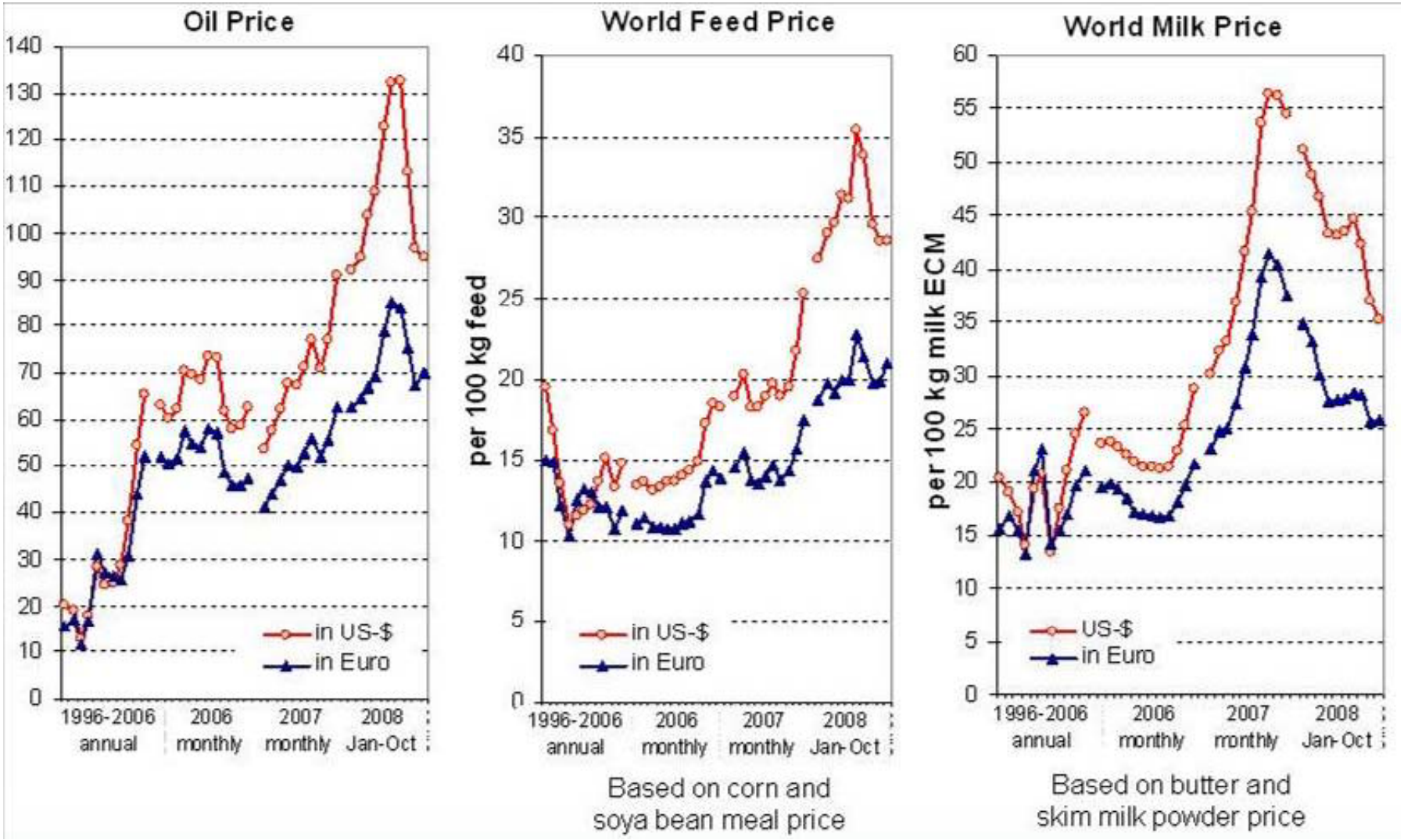
CLIMATE

PEOPLE



Source *Crop Life 2008*

Commodity - Food - **Price Volatility**



Source *IFCN*

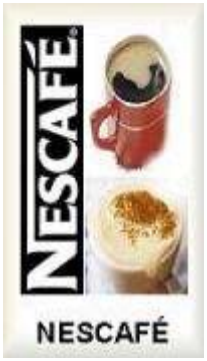
OTHER CONCERNS

- CONTAMINANTS
  - Agricultural eg. Pesticides
  - Post Harvest eg. Moulds
  - Environmental eg. Heavy Metals

- CONSUMER PERCEPTION
  - Not only safe, but must also be seen to be safe
  - Extension into non-food safety eg. Environment linkage

- ALLERGENS

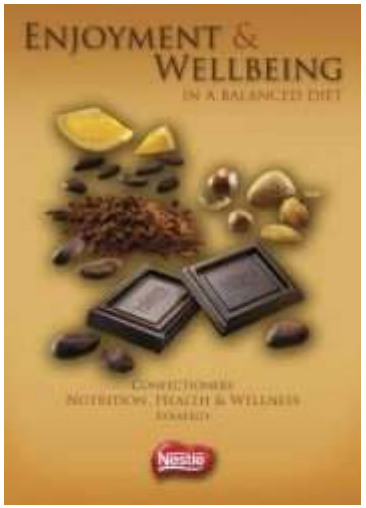
To manufacture Nestlé products we need **Raw materials**...



Nestlé Nutrition

Nestlé PURINA

Nestlé Waters
The Healthy Hydration Company™



Stouffer's

Nestlé NIDO

Maggi

THOMY

Buitoni

Herta

Nestlé PROFESSIONAL

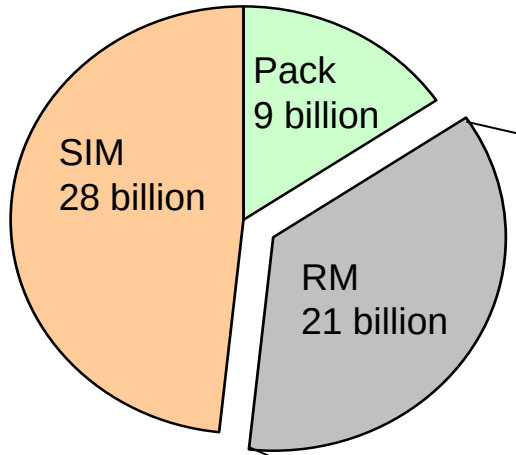
Häagen-Dazs

CPW S.A.
Nestlé & General Mills
Cereal Partners Worldwide

Nestlé CONTINUOUS EXCELLENCE
DELIGHT CONSUMERS
DELIVER COMPETITIVE ADVANTAGE
EXCEL IN COMPLIANCE

Nestlé Sourcing of **Raw Materials (2010)**

Milk, Total Volume Usage (MT) = 13'200'000
Coffee, Total Volume Usage (MT) = 783'000
Cocoa, Total Volume Usage (MT) = 382'000

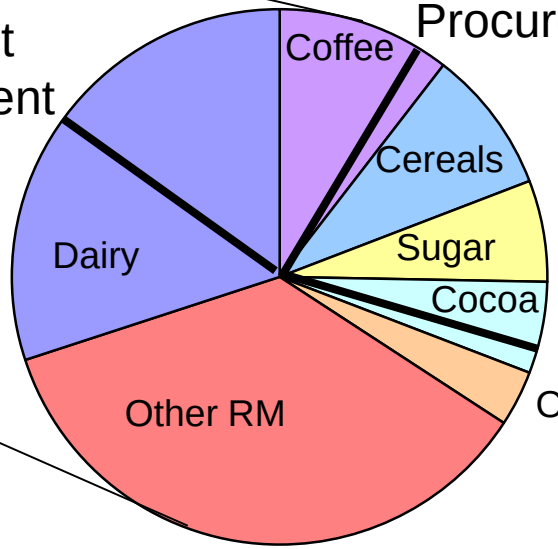


58 billion CHF

(Cost of Goods Sold)

42% Direct Procurement

10% Direct Procurement



2% Direct Procurement

Total Raw Materials

Source *CO-PRO*

How do we achieve our **goals**?

by implementing Sustainable Agriculture practices to impact

- Food safety
- Quality Assurance
- Farm income generation
- Crop and yield improvements
- Cost improvements
- Animal health
- Transport
- Water use & irrigation
- Etc...

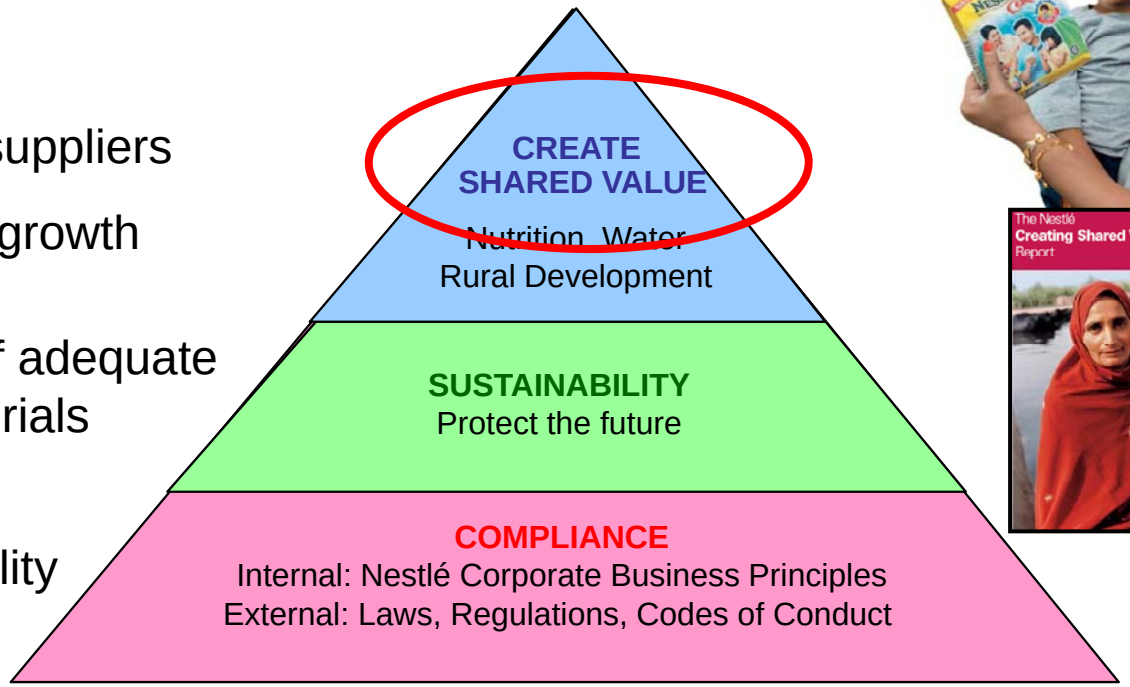
SAIN approach... fully in line with **Creating Shared Value** Concept

Develop farmers & suppliers

building capacity for growth

Secure availability of adequate agricultural raw materials

Ensure safety & quality of raw materials



Milk

Nestlé's Sustainable Agriculture Initiatives

November 2005

Chile

Project News Report

Project Results

The Farm Assurance Manual was presented to 300 progressive Nestlé milk suppliers during ceremonies in Osorno, Llanquihue, and Los Angeles. The farmers embraced the manual, and pointed out the importance of the manual to the future of the Chilean dairy sector, and thanked Nestlé for its leadership in this area.

The Farm Assurance Manual guidelines are under implementation throughout Nestlé Chile's suppliers. In 2005 and 2006, Nestlé Chile hopes to have 50% of its suppliers meeting the stringent standards stipulated by the guidelines. Within a few years, that percentage will be 100%, and Nestlé Chile will receive all its milk from suppliers certified according to the farm assurance scheme — to the benefit of both Chilean farmers and Nestlé's consumers.

Facts and Figures

Number of Farms supplying Nestlé Chile: *1'500*
Amount of milk Nestlé Chile buys, in tons per year: *350'000*
Percentage of Chile's milk production: *20%*

Implementing best farming practices in Chile's dairies

In collaboration with agricultural experts and Chilean farmers, Nestlé Chile's Agricultural Service Department has developed the "Programa de aseguramiento de calidad de leche fresca", the first Spanish-language farm assurance manual in the world. By promoting best farming practices among its suppliers, Nestlé is raising standards of milk quality while optimizing production to the benefit of farmers and consumers.

Dairy farming in Chile has developed quickly in the last decade. Output per farm continues to grow, and farms are professionalizing rapidly. Milk quality has reached European standards, while production costs and price have remained competitive, level with low-cost producers like New Zealand and Argentina. In the past, quality control targets were focused on factories. Now, Nestlé's Farm Assurance Manual is shifting that focus onto the farm.

Inspired by the success Nestlé has had with similar manuals in other countries, such as France and Australia, and in recognition of the importance of its investment in the Chilean dairy market, Nestlé Chile created the manual with an eye toward establishing a widely available guidelines of best milk production practices. When farmers adopt the systems presented in the Farm Assurance Manual, they commit to applying a comprehensive set of good dairy farming practices which ensures the quality and purity of the milk produced on their farms. In turn, Nestlé commits to supporting farmers in their implementation of good farming practices through its field staff.

Together, Nestlé Chile and its partners are eliminating quality risks to the fresh-milk supply and increasing production in accordance with best farming practices.

Prepared by Nestlé CT Agriculture
Contact: sain@nestle.com

Nestlé
Good Food, Good Life

Cassava

Nestlé's Sustainable Agriculture Initiatives

November 2005

Ivory Coast

Project News Report

Project Results

The project started in 2002 with about 100 women from 4 villages in the Mid-Comoé region.

It got off to a very satisfactory and rapid start and the objectives to improve cassava quality and ensured production have been put very well on track.

Most satisfactory achievements also have been made in promoting environmentally friendly production systems and in product diversification to increase the income of the participating farmers.

By 2004 about 800 farmers — of which 700 are women — from 20 villages have joined the project. Additionally, the project contributed substantially to sustainable supply of quality cassava roots of to the Nestlé factory.

However, with the political unrest starting in 2004, the project is now seriously hampered and was discontinued in the affected villages.

Maggi

Pathways to sustainable cassava production

Nestlé's Yopougon factory uses cassava roots as a base in its manufacture of Maggi bouillon. Because cassava sourcing and processing have been problematized by poor tuber quality and availability issues, Nestlé jumped at the opportunity of participating in an ambitious PPP (private / public partnership) project to explore current cassava production methods and ways to improve them.

In addition to possible supply improvements, Nestlé was eager to support a program that would both promote sustainable and environmentally friendly agricultural production methods and improve the economic situation of its farmers.

Begun in 2002, and slated to last three years, the project brought together the resources of the GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit), ANADER (the Agency for Rural Development), and the CSRS (Centre Suisse de Recherche Scientifique en Cote d'Ivoire).

Together, the project members examined farmers' incomes and environmental issues, cassava tuber supply and processing.

They organised field trials, selection of farmers, and established ways of stabilizing production systems.

Prepared by Nestlé CT Agriculture
Contact: sain@nestle.com

CSRS | ANADER | gtz | Nestlé
Good Food, Good Life

Coffee

Nestlé's Sustainable Agriculture Initiatives

January 2006

Philippines

Project News Report

Project History

1984: The Agricultural Services Department, opened the Nestle Agricultural Research and Training Center, (NARTC) in Impasug-ong, Bukidnon. Its activities focused on the provision of free training to coffee farmers and on the production of selected Robusta coffee clones which were brought in from Nestlé collections. Adaptability trials were conducted on new clones susceptible for future distribution to coffee farmers.

1992: The Direct Procurement System was implemented. This resulted in eliminating the buying activities of city-based coffee traders, unwilling to accept smaller trading margins.

1994: The training center was relocated to Tagum City, Davao del Norte and was renamed, Nestle Experimental & Demonstration Farm.

1997: Compounded by the drastic drop in coffee prices due to over-supply, domestic coffee production entered a downward spiral and in crop-year 2002-2003, Philippine coffee production fell to its lowest ever level at only 23'000 MT. The opening of the market to the importation of good quality beans, left coffee farmers feeling that they would not be able to compete with imported coffee, which is generally cheaper than the domestic product.

NESCAFÉ

Direct Procurement for Sustainable Coffee Growing

In the 1980's, the Philippines did not allow the import of green coffee beans to the country. As a result, it was imperative that we help Philippine coffee growers to maintain the yields of their coffee farms and, indeed, to improve them so as to ensure the availability of good quality beans for our factories. The Direct Procurement System was implemented in order to minimize the exploitation of small coffee farmers by city-based coffee traders who were taking too large a share of coffee income and so reducing the incomes of producers.

In addition to this, we set out to provide producers with free training about proper coffee technology and to make available to them the best planting materials for Robusta coffee. The Agricultural Services Department (ASD) launched the "Coffee-Based Sustainable farming System". This is now being adopted by new coffee farmers, and by most of the new coffee development projects. We have also introduced the use of bio-organic fertilizers, which are being assessed at the Nestle Experimental & Demonstration Farm (NEDF) in Tagum City, Davao del Norte. They have been in use at NEDF over the last two years with satisfactory results. In addition to supply planting materials for the Robusta coffee variety, we will soon be able to introduce new selections from the Nestlé Robusta trees collection, which are showing promising yields.

Project Results

- Nestlé Philippines (NPI)-ASD Direct Procurement System has helped to minimize the exploitation of coffee farmers by traders.
- The ASD Technical Assistance Program has helped to minimize the abandonment of coffee farms by farmers.
  Coffee production in the country would have been in significantly worse shape without the intervention of NPI-ASD.
- The Introduction of the "Coffee-Based Sustainable Farming System" will hopefully change the way coffee is farmed in the Philippines and will help greatly in sustaining coffee growing in the country.

Prepared by Nestlé CT Agriculture
Contact: sain@nestle.com

Nestlé Good Food, Good Life

Wheat Flour

Nestlé's Sustainable Agriculture Initiatives

November 2005

Switzerland

Project News Report

Crunching the Numbers

If a single sample from one of ten storage silos were to test positive for contaminants, one would need to track back up the supply chain by cross-referencing the 17 wheat collection points with approximately 44 different supply sources per collection point:

- 44 supply sources per collection point times 17 collection points equals 748 wheat supplies

In reality, the number would be slightly higher even than that. In the project test, some wheat sold to Swissmill came from Canada. Those deliveries contained supplies from an unknown number of farmers.

This study was carried out together with the University of St. Gallen, Dpt. Logistics and Supply Chain Management.

Nestlé LEISI

Testing the safety and traceability of the supply chain for Swiss wheat flour

Nestlé's highly complex Swiss wheat flour supply chain functions at an advanced level of food safety and traceability. Researchers at Nestlé and the University of St. Gallen, however, were curious. In the case of a product recall, how easy would it be to trace the source of a contamination in Nestlé's wheat flour supply? Were the existing control points on the chain adequate for such a task, and were there points where sustainable farming and sourcing methods ought to be supported and enforced?

Previous case studies have shown that analysing a supply chain in terms of risks and food safety controls is an important step towards managing the traceability of incoming raw materials. Researchers sought therefore to identify the levels of risk, describe the current controls in the upstream supply chain, and test traceability by attempting to identify the producer of a randomly chosen batch of wheat flour.

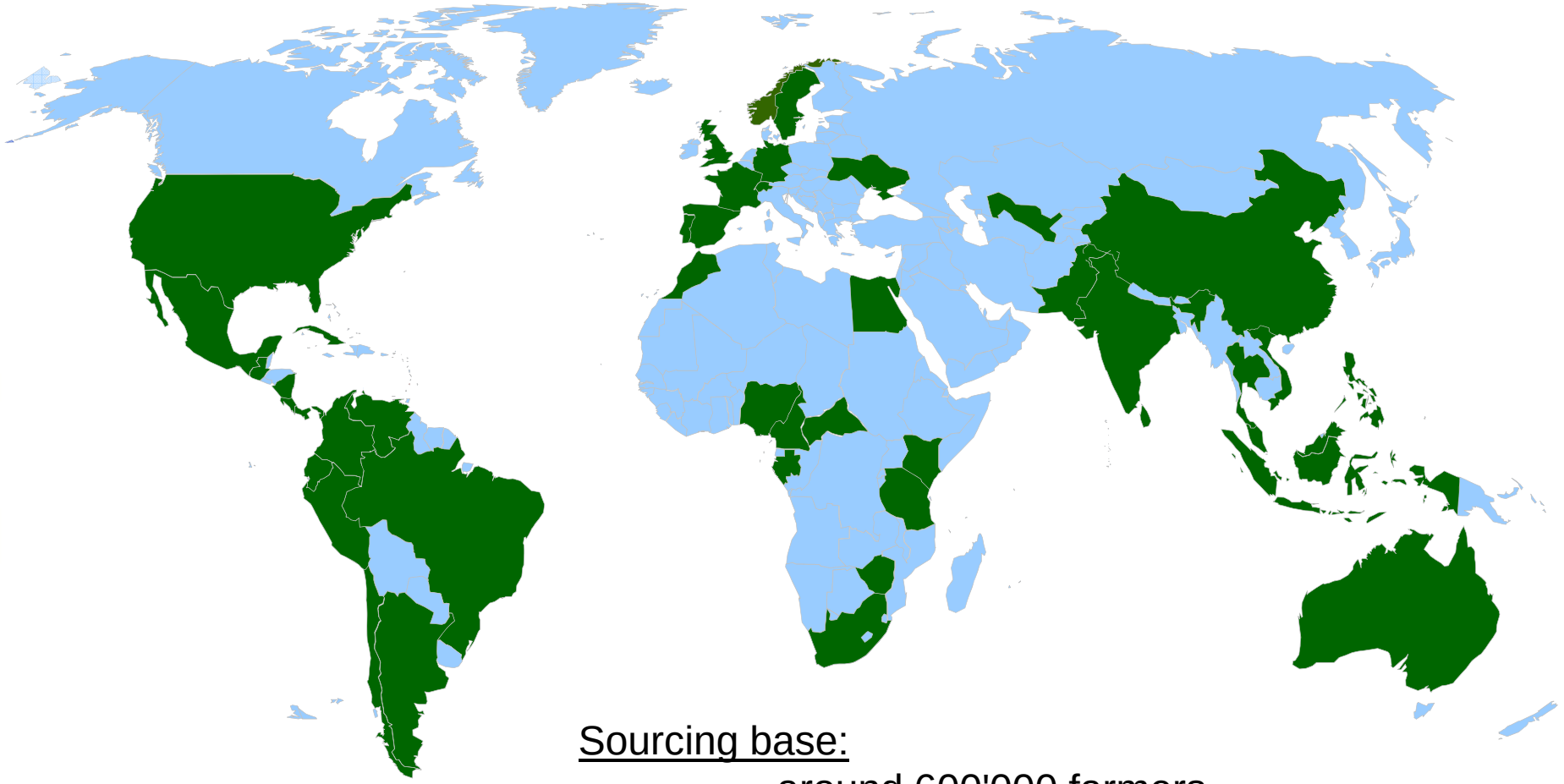
Results showed that, in spite of its complexity, it is possible to follow the flow of raw materials across the supply chain. Swiss farmers / suppliers can be identified. At the level of the cooperative, some difficulty in distinguishing farmers persists, as some supplies may have mixed during the drying process. Control points can only go part of the way to ensuring that quality levels are maintained. Considering the damage that could be caused by the use of non-standard materials, quality control at the farm-level is fundamental for the safety and quality of the entire food chain. At the point of delivery, farmers could receive instructions or submit confirmation regarding their adherence to specified standards.

Prepared by Nestlé CT Agriculture
Contact: sain@nestle.com

Universität St.Gallen

Nestlé Good Food, Good Life

Nestlé and farmers: **Direct Procurement** [Agriculture]

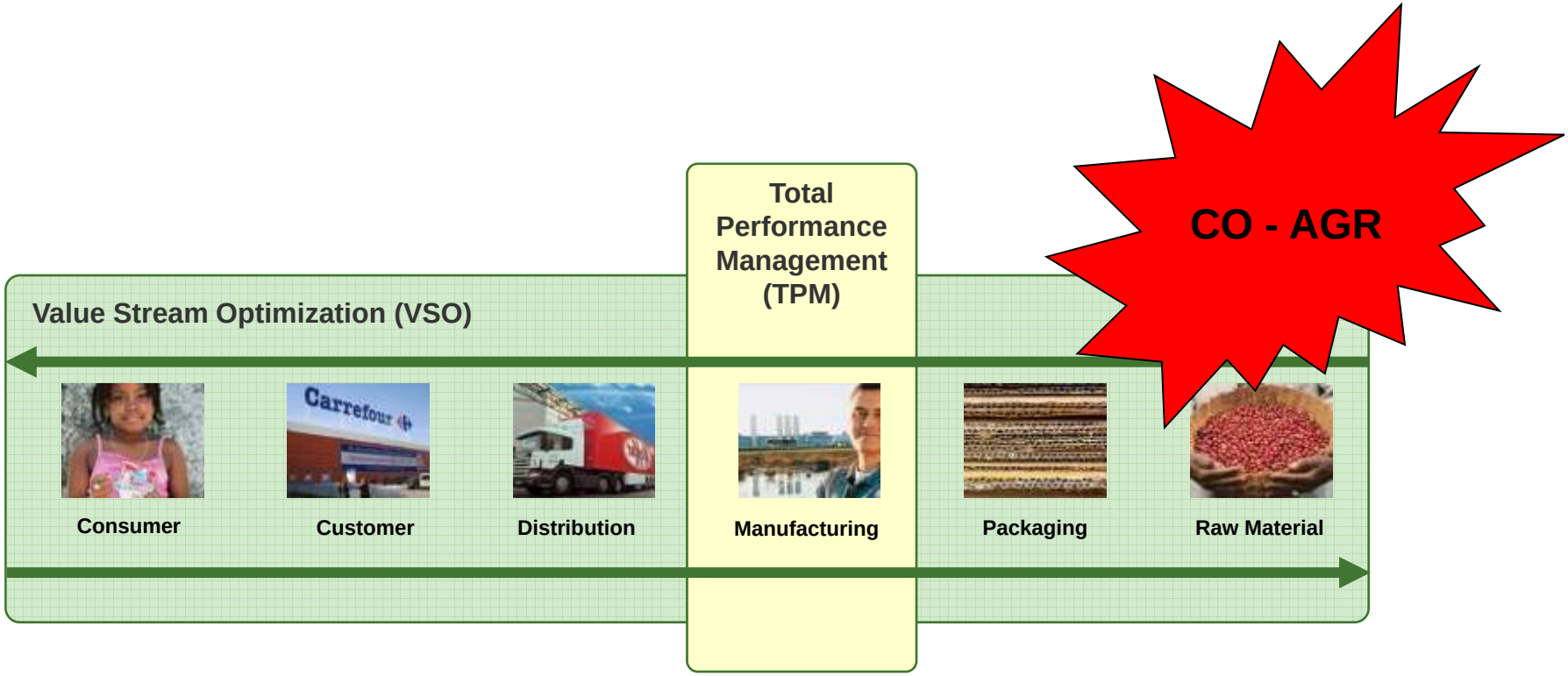


Markets with Direct Procurement activities

Sourcing base:

- around 600'000 farmers
- 771 sourcing managers
- 6'700 extension workers

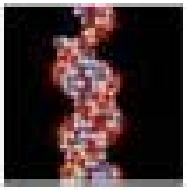
Agriculture drives competitive advantage at the **beginning of the supply chain....**



***...by ensuring supply** to factories, but also addressing ...*

- **Consumer preferences & expectations** on <u>product safety & quality</u> and at the same time supporting sustainable agriculture and sourcing practices to enhance
- **Consumer's trust in Nestlé's brands**

Nestlé Tours R&D Centre (France) dedicated to **Plant science**.

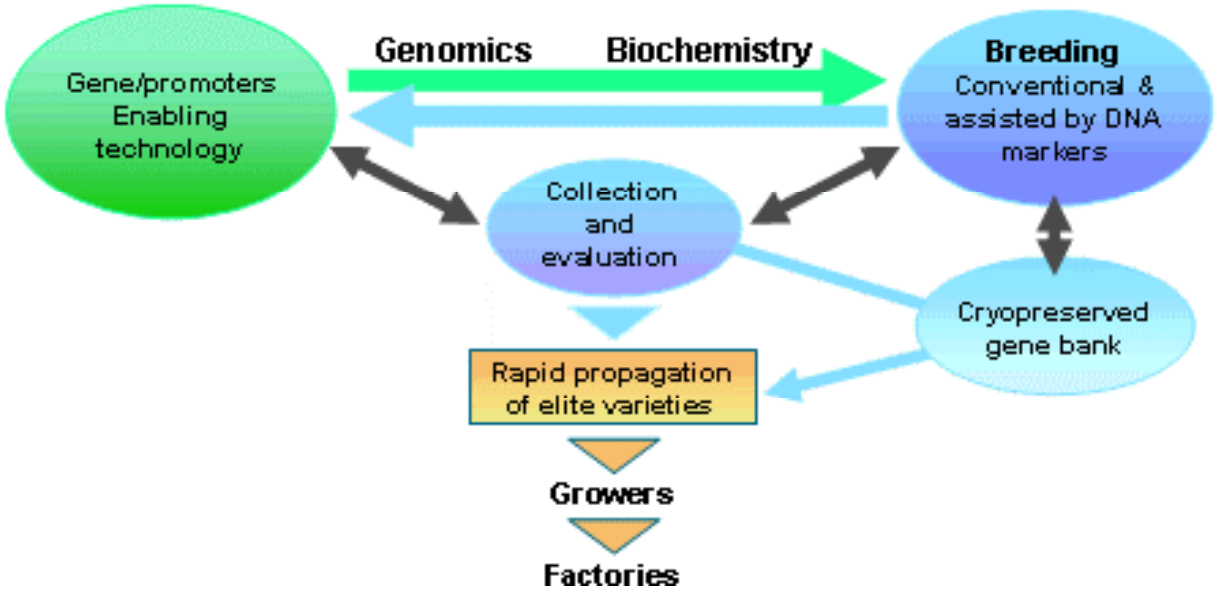


From DNA to the selected raw material

R&D-Tours develops technologies that are used to enhance the quality of raw materials of strategic importance for Nestlé, and guarantee the sustainability of their production & supply.

Core knowledge in:

- DNA fingerprinting
- Cryopreservation
- Somatic embryogenesis



Nestlé
Green Coffee Platform

Nestlé CONTINUOUS EXCELLENCE

Nestlé Tours R&D Centre (France) dedicated to **Plant science**.

Core Assistance to:

- Farmers: high yielding accessions, cultivation and post harvest treatment support.
- Business: Enables traceability and control of accessions (Quality). Contribution to SBU strategy, collaboration with local R&D Centres and international networks.

Promotion of planting materials

Application in farms

Results (higher production)

The main industrial application is ***Somatic Embryogenesis for Coffee propagation*** (example of nurseries of several ha of Robusta plantlets in Thailand).

BACK TO TOP

The Cocoa Plan

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DELIGHT CONSUMERS
DELIVER COMPETITIVE ADVANTAGE
EXCEL IN COMPLIANCE

Our Vision

Our Vision is to help cocoa farmers run profitable farms, respect the environment, have a good quality of life and for their children to benefit from an education and see cocoa farming as a respectable profession

Our Commitments

CHF 110m in next 10 years in plant science and sustainability, building on CHF 60m over past 15 years
12 million plantlets over next 10 years

Areas of activity

- Helping farmers
  - Training in good agricultural practices
  - Improve yields and returns
- Plant expertise
  - Tours and Abidjan R+D
- Supply chain
  - Transparent and reliable supply of cocoa
  - Buying from coops
  - Premium for quality
- Social conditions
  - Schools
  - Water

…thecocoaplan.com is now live

Spicing Up the Community

Project Objectives:
Commenced in 1995 to create new income opportunities and provide sustainable source of income for the hard-core poor farmers in the local community.

Through transfer of technology on GAP, farmers improve their yield and quality of crops to meet global standards.

Approximately 80% of the chilli produced under this scheme is purchased by Nestlé, which is estimated to meet 50% of Nestlé's fresh chilli requirements for its products.

Spicing Up the Community
Creating Sustainable Livelihoods

1995 → 4 farmers → 16MT on 4 acres

2010 → 200 farmers → 800MT on 200 acres

On average, the farmers earn a net income of US$3000 per season (7 months), which works out to US$428 per month; more than double their original income of US$200per month.

Spicing Up the Community Achievements

From 2006, the project has been accorded SALAM accreditation by the MOA, a hallmark of GAP in Malaysian Agriculture.

The Product

Ultimately, this translates to delivering high quality products to the consumer - the MAGGI Chilli Sauce - which is sold locally as well as exported to markets such as Australia, Singapore, Thailand, Philippines, Hong Kong, the Middle East and USA

The EAST is RED

After 4 years of R&D and field trials, the first commercial plantings of red rice for Nestlé Malaysia commenced Feb 2010, covering 5 different growing regions in Sarawak and involving some 300 small-scale farmers over 400has.

Nestle / Empire Rice Joint Red Rice Experimental & Demonstration Farm, Bau, Sarawak

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DELIGHT CONSUMERS
DELIVER COMPETITIVE ADVANTAGE
EXCEL IN COMPLIANCE

Nestle Man on the Ground – Quality begins from the Farm

Nestlé CONTINUOUS EXCELLENCE
DELIGHT CONSUMERS
DELIVER COMPETITIVE ADVANTAGE
EXCEL IN COMPLIANCE

Traditional Farming Practises are still very much the norm…

And Nestle focus is on marrying the old and new…

Nestlé CONTINUOUS EXCELLENCE
DELIGHT CONSUMERS
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EXCEL IN COMPLIANCE

Nestle Red Rice Contract Farming Launch of First Commercial Harvests, Tebedu, Sarawak…

…and offcial release of MARDI Red Rice Variety for Commercial Farming, a prime example of a Close Private / Public Sector Partnership

Nestlé CONTINUOUS EXCELLENCE

SUSTAINABLE AGRICULTURE INITIATIVES: NESTLÉ MALAYSIA
"WIN-WIN-WIN FOR PEOPLE, PLANET, PROFIT"

SEMI-AEROBIC RICE FARMING

→ **SATURATE AND NOT INUNDATE**

- ***Reduced water usage-joint study with MARDI***
- ***Reduced methane emission-aerobic not anaerobic***
- ***Deeper rootings, less lodging-reduced grain loss and improved quality***

BACK TO NATURE – USING MICROBES TO REGAIN AGRI-ECOLOGICAL BALANCE

- ***Restore soils to restore overall plant health and vigor.***
- ***Cost effective substitute for costly chemical fertilizers, whilst eliminating its environmental impact as well.***
- ***Significant reduction in pesticides usage.***
- ***Very safe for all users, easy to apply.***
- ***One 'holistic' solution for multi-crops.***

Living Soils Prog :Back-To-Nature Project

BACK

Nestlé ARMAJARO ICCRI One Good Earth®

nature

...dengan microba

Photo credit: WWF-Malaysia

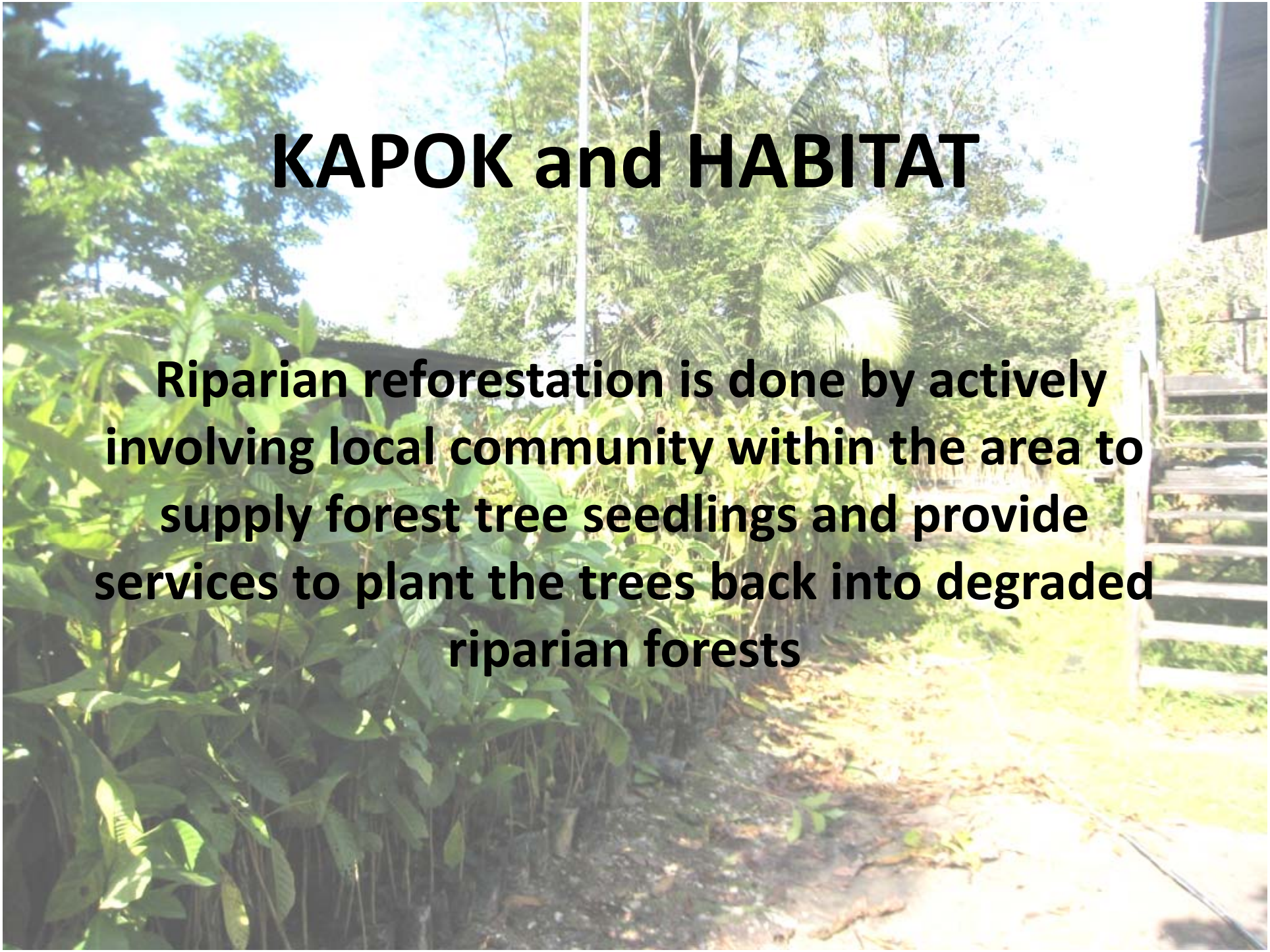
Kinabatangan Riparian Restoration & Oil Palm Sustainability Project

Project RiLeaf

An initiative by Nestle to try to create a landscape where people, nature and agriculture (oil palm), are united by their common source of vitality- water - and to demonstrate that mutual co-existence is possible for all stakeholders.

Project RiLeaf

Operations area are strung along a 110km riparian zone of the Lower Kinabatangan, that aims to achieve forest connectivity, as well as minimise water pollution from sedimentation and agricultural run-offs by the restoration of a 'green' buffer zone-in effect to provide "RiLeaf" such that the river has a better chance to repair itself.



KAPOK and HABITAT

Riparian reforestation is done by actively involving local community within the area to supply forest tree seedlings and provide services to plant the trees back into degraded riparian forests


Oil Palm Sustainability Project of RiLeaf seeks to reduce environmental impact of oil palm plantings through sunstitution or minimisation of chemical fertilizers via a “back-to-nature” soils amendment approach.

Oil Palm Sustainability Project

- More on Positive Engagement
- Less on Punitive Measures

POST-HARVEST INNOVATIONS
- HERMETIC GRAIN STORAGE

FOR STOCK

- *No pests infestation under long term storage, sans any chemical fumigation.*
- *Similar long term storage of whole grain rice without quality degradation sans cold room.*
- *Zero energy usage and eliminate need for chemical fumigation.*
- *Can be set-up outdoors to save warehouse costs.*
- *Easy set-up, cost-effective, reusable, repairable and safe.*

FOR SEEDS

- *Maintain seed viability sans cold room: 80% after 12 months vs. 10% control.*
- *Zero energy usage.*
- *Easy, cheap, reusable and safe*

In Conclusion…

- ……
- ……
- ……

There is no conclusion,
because sustainability is not
about concluding,
but about continuing…

AGRICULTURE

Thank You !

“ …after the last grain is harvested and consumed,
…after the last fish is caught and eaten,
…only then will man realise that he can’t eat money”